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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. E-01345A-11-0224

DECISION NO. 75558

ORDER

Arizona Corporation Commission
DOCKETED
MAY 13 2016
DOCKETED BY

Open Meeting
May 3 and 4, 2016
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public utility company in the state of Arizona.

Background

2. On January 15, 2016, Arizona Public Service Company ("APS" or "Company") filed an application ("Application") with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR") mechanism adjustment effective March 1, 2016. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred.

3. APS is requesting that the LFCR charge be re-set from 1.4592 percent to 1.7095 percent of the customer's bill, which would result in an increase of $0.34 per month for a residential customer using the annual average of 1,100 kWh per month. The impact on retail revenues from the new LFCR charge is an overall estimated revenue recovery of approximately $46.4 million for the 12-month collection period beginning in March 2016.

4. Staff recommends approval of the annual LFCR mechanism adjustment effective with the first billing cycle in April, 2016.

Procedural History

5. APS filed its application pursuant to the LFCR Plan of Administration ("POA") on January 15, 2016.

6. On February 24, 2016, the Energy Freedom Coalition of America ("EFCA") filed an application for leave to intervene in this docket. EFCA also filed a Motion for Procedural Conference.

7. APS filed a response on February 24, 2016 opposing EFCA's intervention and noting that the proper procedural means for raising its issues would be to bring a complaint.

8. Staff filed a response on March 7, 2016 noting that the issues raised by ECFA did not necessitate a hearing. The factual issues were largely addressed by Staff in its Report. The other issues, Staff stated, were not relevant because the LFCR is simply a rate design mechanism which operates within a previously authorized revenue requirement and is intended to ensure that APS may recover a portion of its authorized fixed costs which it would otherwise not recover because of Commission policies which have the effect of lowering consumption by APS's customers.

9. On March 17, 2016, EFCA's application to intervene was denied by the Administrative Law Judge as untimely, a collateral attack of Decision No. 73183 and because it was likely to unduly broaden the scope of the issues in the case.

Description of LFCR

10. In Decision No. 73183 (May 24, 2012), the Commission approved the LFCR which provides for the recovery of lost fixed costs associated with EE savings and DG. The LFCR is a rate design mechanism intended to assist in the recovery of a previously authorized revenue requirement. Costs to be recovered through the LFCR include the portion of transmission costs included in base

rates and a portion of the distribution costs not recovered by (1) the Basic Service Charge ("BSC") and (2) 50 percent of demand revenues associated with distribution and the base rate portion of transmission.

11. The LFCR also includes an annual 1 percent year-over-year cap based on Applicable Company Revenues. If the annual LFCR adjustment results in a surcharge and the annual incremental increase exceeds 1 percent of Applicable Company Revenues, any amount in excess of the 1 percent cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1 percent cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

12. The Plan of Administration ("POA") describes how the LFCR operates. By January 15 of each year, APS will file its calculation of the annual LFCR adjustment, based on the EE and DG savings from the preceding calendar year. APS will use actual data through September and forecast data for October through December. Each year, a true-up mechanism reconciles the three months of forecasted data of EE and DG sales reductions to verified EE and DG sales reductions in those months. There is also a balancing account that tracks the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account is reflected in Schedule 3 (Attachment C, Page 3) of the Application.

13. In Decision No. 74202 (December 3, 2013), the Commission authorized APS to implement a \$0.70 per kW per month (per system installed capacity) interim LFCR DG Adjustment for all residential DG installations after December 31, 2013. APS reports that \$520,522 was billed in 2015 under the interim LFCR DG Adjustment.

14. General Service customers taking service under rate schedules E-32 L, E-32 TOU L, E-34, E-35 and E-36 XL, and un-metered General Service customers under E-30 and unmetered lighting schedules including E-47, E-58, E-59 and Contract 12, are excluded from the LFCR. In addition, residential customers taking service under rate schedule ECT-2 are also excluded from the LFCR under the terms of Decision No. 74202. Customers taking service under any of these excluded rate schedules

are not subject to the LFCR mechanism because other rate designs are in place to address lost fixed costs. Residential customers can opt out of the LFCR adjustment by choosing an optional BSC, which is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. The number of Opt-Out customers is expressed as the annual average number of customers "Opting-Out" over the Current Period. The LFCR mechanism is not applied to residential customers who choose the Opt-Out provision. The LFCR is subject to Commission review at any time but no later than APS's next rate case.

Staff Analysis

15. Staff has reviewed APS's calculation of the LFCR adjustment. Staff has found that the LFCR Annual Adjustment Percentage is calculated in accordance with the POA for the LFCR as approved by the Commission. This calculation is shown in Schedules 1 through 6 (Attachment C) of the Application. According to the calculations, and in accordance with the POA, the LFCR charge would be 1.7095 percent, which would result in a cumulative revenue recovery of approximately $46.4 million (or a $7.9 million increase according to APS) for the 12-month collection period beginning in March 2016.

16. In Attachment D of the Application, APS provided bill impact calculations for various rate schedules that are subject to the LFCR. APS has calculated that for the average residential customer (all residential rate schedules), using an average of 1,100 kWh per month, the customer's bill would increase by $0.34 per month (a 0.25 percent increase).

17. APS notes that for the period that is the subject of the instant Application, the full revenue per customer decoupling mechanism proposed by APS in its June 1, 2011, rate application (but not adopted by the Commission) would have resulted in a total revenue adjustment of $78.78 million with an average customer bill impact of 2.3971 percent. This would result in a total charge of $3.24 per month for a residential customer using the annual average of 1,100 kWh per month. Staff notes that under such a fully decoupled mechanism, all customers are considered as a single group for purposes of determining the adjustment rate. In addition, APS's originally proposed full decoupling mechanism offered no Opt-Out alternative for residential customers.

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Staff Recommendations

18. Based on the above, Staff has recommended that an LFCR rate of 1.7095 percent be approved and become effective with the next available billing cycle of April 2016.

CONCLUSIONS OF LAW

1. Arizona Public Service Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Arizona Public Service Company and over the subject matter of the application.

3. The Commission, having reviewed the Application and Staff's memorandum dated March 16, 2016, concludes that it is in the public interest to approve an LFCR rate of 1.7095 percent.

4. The LFCR does not implicate fair value considerations because it is a type of rate design mechanism intended to assist in the recovery of a previously authorized revenue requirement.

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ORDER

IT IS THEREFORE ORDERED that an LFCR rate of 1.7095 percent be approved effective with the next available billing cycle of June 2016.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 13th day of May, 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: Robert L. Burns

DISSENT: ______________________

TMB: RBL: vsc/MAS

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